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## The Commerce Strategy towards Pan-European Innovation and Consumption: Spokes Partnership for FDI of Korea

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### ABSTRACT

The E-car and IT industry can be good examples to realize growth potential by amalgamating technology and capital of the EU with high-quality labor force (not the consumption but the Innovation) and Hub-Spoke market of emerging economies of the CEEC. They started to apply the membership of EU since 1998. The EU accommodated 10 nations as new members of EU in May of 2004 as they fulfilled the requirements of the 'Copenhagen Convergence Condition'. The EU would like to realize its potential trade and investment opportunities with the CEEC from this enlargement. Since the crisis of the global finance or IT like Nokia in 2008, they have focused on the Innovation and consumption. The paper analyzed the impact for the Innovation and Consumption of Eastern enlargement of EU on trade, investment and technology cooperation patterns of Korea to formulate a pan-European marketing strategy with a special emphasis on the mobile phone industry or motorcar. This is why a new collaborative workplace has enabled the creation of hubs in the emerging regional small markets (Visegrad + Eastern European-Balkan countries) and the central large markets (Germany + CEE). But TNCs may even be merged by mega-innovative companies in the pan-European marketing unless they successfully adapt the changing patterns of demand in according to new commercialization of competing firms. The public policy in a knowledge-based economy is required to shift the role of restraining to fostering in terms of promoting linkage effect for avoiding the chasm.

**KEYWORDS:** EU; Innovation; Consumption; Hub-Spoke; ICT; E-Car; Chasm

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## INTRODUCTION

The EU was incepted by the European Economic Community (EEC) in 1957 via Rome Treaty. European Coal and Steel Community (ECSC) and European Payment Union also contributed to the launch of EEC. The European Community (EC) had reached the Single European Act (SEA) in 1987 by fully recognizing that it had been falling behind in industrial adjustment capability compared with the United States or Japan. The SEA specified the target of accomplishing the EC into common market until 1992. Having launched the common market in January of 1993, the EU announced a schedule to achieve the monetary union which was achieved in 1999 [1].

Members of EU increased from six nations in 1957 to twelve in 1989 and further increased up to fifteen nations in 1995 by the entry of Austria, Sweden and Finland. Delors Chairperson of the commission of EU, has attempted to explore a further integration in terms of monetary union and political federation since the late 1980s. The EU and Central and Eastern European Countries (CEEC from hereafter) have shaped a more amicable climate in that the former needs the latter for the procurement of high-quality labor and market whereas the latter is keen to induce the inflow of capital and technology from the former. The EU facilitates security cooperation with the CEEC since the Nice Treaty in 2001. Because of the proxy location to CEEC, Germany and Italy have been vigorous to extend their economic activities towards the CEEC. But the EU as a whole has been less enthusiastic in addressing its enlargement scheme to the CEEC compared with the endeavours of CEEC.

Despite having extended preferential treatment on both incoming flows of trade from the CEEC and outgoing flows of investment towards CEEC, the EU was reluctant to make a further concession to the CEEC due to the possible increase in social network expenses and internal instability. But there emerged a paradigm shift among EU members to expedite its initial plan of enlargement towards the CEEC as a means of revitalizing their industrial adjustment process [2]. The motorcar and IT industry can be good examples to realize growth potential by amalgamating technology and capital of the EU with high-quality labor force (not the consumption but the Innovation) and expanding market of emerging economies of the CEEC.

After having achieved the European Monetary System in 1999 and launched the euro in 2002, the EU has adopted a more positive stance on its Eastern enlargement with a hope of boosting industrial activities. Eight nations of CEEC plus Cyprus and Malta have been keen for the signatory of EU membership since the collapse of Cold War. They started to apply the membership of EU since 1998. The EU accommodated 10 nations as new members of EU in May of 2004 as they fulfilled the requirements of the 'Copenhagen Convergence Condition'. The EU would like to realize its potential trade and investment opportunities with the CEEC from this enlargement. Since the crisis of the global finance in 2008, they have focused the Innovation and consumed at the same time.

This paper aims at analyzing the impact for the Innovation & Consumption of Eastern enlargement of EU on trade, investment and technology cooperation patterns of

Korea to formulate a pan- European marketing strategy with a special emphasis on the mobile phone industry.

## **Pan-European Production and Marketing**

The Eastern enlargement by the EU can be interpreted as a dramatic turning point of achieving a leading economic bloc by combining the Western and Eastern Europe that have been divided nearly for a half decade. It also facilitates the production sharing and pan-European marketing.

## **Pursuit of Market Integration**

Most transnational corporations (TNCs) treat EU as a single market for their global reallocation of production and technology. But the internal integration ratio ranges with a wide margin in real terms. For instance, there still exists a wedge in corporate tax rates which ranges from 10 per cent in Ireland to 40% in Italy in 2002. But the EU reinforces the harmonization on the federal fiscal policy among member countries, though it offered an adjustment period to new member countries [3]. The joining of new members implies the free movement of labor and capital in the pan-European market. But such a single market has several limited boundaries in that old members can still impose safeguards at an industrial level such as textile and clothing industry. The launch of monetary union in 1999 has facilitated the internal trade and investment by reducing frictional cost of exchange rate fluctuations. The relative share of euro in international currency increased from 19.6% in June 1999 to 24.6% in June 2003 whereas that of U.S. dollar declined from 55.2% to 53.2% over the same period.

The Finland Summit, which was held in November 1999, launched the 3rd Internal Market Strategy (2000-2004). This strategy comprises the following four policy measures: enhancement of consumer life quality, enhancement of market efficiency, improvement of business environment, synergy effect of market integration. The Lisbon Summit, held in March 2000, declared that EU is ready to pursue more research to achieve one of the most dynamic and competitive knowledge-based economy [4]. EU launched the e-Europe initiative movement in 2000. The share of network industry takes account of 6% of total output of EU. By taking into account the sluggish progress of Lisbon Strategy, the EU announced the re-launch of Lisbon Strategy to revitalize the knowledge-based economy and to retain the European Social Model 2005.

Besides the economic changes, there emerged the European citizenship as the EU has made progress on federal regime by introducing European constitution. But such a movement seems to be halted or regressed tentatively since the referendum for the ratification of the European constitution have been turned down in both France and Netherlands in May and June 2005 respectively. Such a regress may be stemmed from the common fiscal policy which limits the budget deficits of member nations to be less than 3 per cent of the GDP [5]. It is gathered that, nonetheless, the EU is bound to move forward to reap positive spill over effects from industrial adjustment to cope with the overall tendency of enlarging trade bloc such as NAFTA or AFTA.

## **Structural Reform in the CEEC**

The Committee for Mutual Economic Cooperation (CMEA) has been phased out since the collapse of Cold War. Hungary, Poland, Czech Republic and Slovakia organized the Central European Free Trade Area (CEFTA) in 1992 which successfully removed tariffs on most manufactured goods except for the sensitive items such as motorcar and textile goods. The Western European countries used to implement trade policy as an extension of diplomatic policy [6]. They, thus, have a long tradition of adopting preferential trade policy [7]. Before the collapse of Cold War, such special treatment had been provided to colonial countries. But the CEEC have received the most preferential treatment since the early 1990s. The EU also provided such a status of "Association Agreement" on individual basis to CEEC.

Among the new signatories to the EU membership, the central European countries have achieved most advanced level of economic development by implementing structural reforms for the economic integration and globalization process. Privatization, corporate and financial restructuring, and direct foreign investment were the three pillars of structural reform. Policy-makers perceived that the implementation of an efficient transformation of state-owned enterprises into private ones were vital to increase the growth potential of the economy and to limit the contingent liabilities of the budget. The average per capita GDP of new members of CEEC was far below the corresponding figure of 23,210 euros old members in 2002.

The economic growth rates of CEEC are expected to increase rapidly boosted by the increased inflow of FDI and expanded market size. According to the report of EU commission, the average growth rates of CEEC are expected to be twice compared with those of EU. The IT industry and motorcar industry are expected to accrue a large portion of dynamic gains from the Eastern enlargement. As manifested in the New Lisbon Strategy of 2005, the EU attempts to strengthen the knowledge-based economy by expediting the agglomeration of IT industries. The EU is ready to make use of new members of CEEC for the production base as well as the R&D clusters [8]. Within the CEEC, the removal or reduction of tariff barriers to the extent of EU will increase competitive pressure. Boosted by the inflow of capital and R&D capabilities, the regional champions put their efforts to become the global ones by pursuing an intensive pattern of growth. Furthermore, R&D clusters can be reinforced by facilitating the exchange of manpower.

This paper focuses mainly on Hungary, Poland and Czech Republic at the industry level analysis because these countries have pioneered the frontiers of recent reforms among transition economies. These three nations absorb about 74.5% of FDI to the CEEC. The U.S. and Germany have played important roles of channelling more than 40% of FDI to this region. Over the past ten years Hungary has gone through radical changes to integrate itself into the world economy by increasing its exposure to international competition. Having established its market economic system, Hungary is focusing on bringing market performance into line with its peers, mostly through strengthening competitive edge in important sectors and overall improvements to the quality of regulatory governance. Hungary tries to build up hubs with respect to railways, logistics and air-cargo terminal.

Budapest, the capital of Hungary, is evaluated as an ideal IT industry base in that it is equipped with creative, innovative, well-trained labor force with competitive wages. Business environment has been enhanced as Hungary is ready to comply with EU regulations on competition and state aid, transparency and efficiency of the incentive instruments, predictability in legal security and planning security. Hungary promotes interactions among venture capital, diverse human resource, university personnel and R&D centers. It also attaches the utmost importance on the communications sector by taking into account its pervasive impact on all other sectors of the economy. “Smart Hungary” aims at shaping attractive investment climate by providing tax-related incentives, direct incentives, service oriented public administration [9]. Table 1 shows that Germany, Netherlands and the United States took account large portions of the relative share of FDI in Hungary over the period 1992-2002.

**Table 1:** The proportion of the most significant investor countries in Hungary [23]

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Germany</b>	18.5	28.5	22.2	24.6	23.8	24.8	28	27.1	1.1	57.8	12.4
<b>Netherlands</b>	8.9	5.6	11.1	10.5	9.5	14.6	15.6	29.9	35.3	0	37.7
<b>USA</b>	12.4	21	14.3	16	17.1	15.2	12.2	12	16.4	12.3	8.1
<b>Austria</b>	25.1	15.8	19.1	15.9	14.5	10.9	11.7	4.1	1.3	19.9	0
<b>Others</b>	35.1	29.1	33.3	33	35.1	34.5	32.5	26.9	46.6	10	41.8

The relative share of manufactures in total exports amount of Poland increased rapidly in the last decade boosted by the export oriented pattern of growth [10]. The share of PC Monitor of LG and Samsung in Poland recorded 38.2% and 27.0% respectively in 2002. Daewoo ranked the ninth position in FDI in 2001. Hungary, Poland and Czech Republic have successfully attracted foreign capital and technology by dismantling their economic systems to the extent of joining the OECD. Poland implements relatively stable federal policy compared with Hungary and Czech Republic. The Eastern enlargement has brought forth intensified competition between the affiliates of EU firms and those of the U.S. ones. There seems to be an ample opportunity for these countries to induce foreign direct investment as well as increasing imports boosted by the increased income bracket as Table 2.

**Table 2:** CEE’s economic Outlook [24]

Year	Potential employment	Productive capital	Total factor productivity	Potential output growth (%)
<b>2001</b>	-0.41	1.18	2.89	3.66
<b>2002</b>	-0.27	1.07	2.88	3.67
<b>2003</b>	-0.04	0.95	2.80	3.70
<b>2004</b>	0.38	0.97	2.64	3.99
<b>2005</b>	0.72	1.11	2.42	4.26
<b>2006</b>	1.00	1.23	2.21	4.44
<b>2007</b>	1.04	1.45	1.92	4.41
<b>2008</b>	0.77	1.58	1.69	4.04
<b>2009</b>	0.25	1.20	1.65	3.11
<b>2010</b>	-0.04	1.00	1.48	2.44
<b>2011</b>	0.14	1.15	1.31	2.61
<b>2012</b>	0.18	0.95	1.45	2.58
<b>2013</b>	0.14	0.79	1.50	2.44 (Projections)
<b>2014</b>	0.10	0.76	1.61	2.47 (Projections)
<b>2015</b>	0.06	0.81	1.73	2.60 (Projections)

## Pan-European Integration in Terms of Production Site and Market

Multinational enterprises accelerate pan-European integration on their production, R&D, back-office functions by operating financial organizations and pooling logistics from individual country basis to pan-European one. The prime impact of the Eastern enlargement may be the fortification as production base and the increase in market may be a secondary one. Old member nations are keen to enhance their industrial adjustment capability on the motorcar, IT, steel and textile and clothing industry by promoting trade, investment and technology cooperation with the new members of CEEC. The average wage rate of CEEC ranges from 1/5 to 1/4 of those of old member nations. The relative share of FDI inflows from old members to CEEC reaches about 65 per cent. Most of such FDI inflows have a close relationship with the privatization or intra-industry trade of CEEC [11].

There has been a remarkable progress in the Monetary Union, the Schengen Treaty and the Common Foreign and Security Policy (CFSP). Nine EU members in the Schengen Treaty have abolished individual checks in the border controls and cooperated closely since March 1995. The willingness of EU to promote pan-European liberalization and integration actively has increased all the way since 1989 and seems to procure a pivotal momentum with the Eastern enlargement. The CFSP has developed in the Nice Treaty despite having failed the voluntary choice for several specified joint actions. The Eastern enlargement may play a catalyst role on procedure of integration by bringing forth the benefits of trade creation and dynamic gains. The human capital in Hungary and Poland is well accumulated helped by high education level. Besides, Czech Republic and Slovakia have strong industrial bases in heavy industry.

However, a scale of the current typical vehicle production varies from CEECs, Tables 3 and 4 growing the scale similar to each other across CEE in 2017 or it expects that Turkey toward the neighboring Balkans to be pulling ahead of them in scales. However, if the production and development only occurs and consumption does not occur in regional hubs, the central hub like Germany becomes vulnerable. This is due to a close interdependence between the central hub of Western Europe and Eastern Europe hub [12,13].

**Table 3:** Automobile production in CEE, 2013 (1,000 unit) [25]

Corporate Brand	Skoda	Renault	Lada	Volkswagen	Hyundai	Ford	Kia	Fiat	Peugeot	Dacia
Production area	CZ/SK	SL/RO	RU/etc.	HU/PL	SK	PL	SK	PL/SE	CZ/SK	RO
Outputs	661	622	595	498	493	482	448	406	295	282

**Table 4:** Automobile export prospects of CEE and emerging regions, 2017 (1,000 unit) [25]

Country of Origin	CZ	SK	PL	TK	RO	HU	UZ	SL	RU	UR	SE	KZ	BL
2012	97 2	646	597	568	258	200	100	99	58	28	9	2	1
2017	1,1 26	782	1,048	1,023	255	424	18	173	123	8	146	25	7

Eventually, due to the influx of companies such as Tesla electric car, market Hub is easy to appear in a chasm. As the hub-spok economy, the car industry is brought to Eastern Europe's export-oriented growth and German has to do developing of priority at the same time producing new cars with a reasonable price. It should induce the consumption of regional hubs.

## **Cooperation Patterns of Korean Firms towards the Pan- European Market**

### **Trade Aspect**

The population of EU increased from 380 million to 455 million persons and its GDP reached 9,000 US dollars via the Eastern enlargement. Trade volume also increased up to 19 per cent of world trade. The GDP of new members takes into account only 5 per cent of old members and import amount from new member countries to old member countries records just under the 2 per cent of the total imports of old member ones in 2004 [14]. But despite having equipped with such a low level of GDP or trade, the CEEC has been an advantages the logistic intersection in having high-quality manpower and strong industrial bases for heavy industries. The largest importer of Korean exports among new members used to be Poland which takes into account about 31 per cent in 2003. Korea's export to Hungary took over that of Poland in 2004 but Poland resumed its first position again in 2005 [9]. The relative shares of Korean exports to Czech Republic, Hungary and Slovakia records 23 per cent, 21 per cent and 11 per cent respectively. The export amount of Korea to new member countries was about 2.1 billion U.S. dollars which took into account of about 1 per cent of total Korean exports in 2003. And the corresponding Korean import amount from these countries was about 0.43 billion U.S. dollars whose relative share in total imports was only 0.2 per cent.

The Eastern enlargement brings forth both positive and negative impacts on the trade and FDI of Korea towards the CEEC. Some positive impact comprises the following cases. Firstly, Korea's exports can be increased due to the reduced tariff rates in the CEEC. Secondly, Korean firms, which carried out industrial migration from the Western Europe to the CEEC, may increase their exports to the Western Europe by making use of the relatively cheap wage rates. For instance, Samsung electronics or SDI plants migrated from the U.K. to Spain, and further to Hungary.

Thirdly, Korean exports and FDI may be expanded by the increased income brackets of CEEC and the incentive package of hosting countries. But there also emerges some negative effects. As the new member nations abide by the common trade policy of EU, Korean exports to the CEEC are expected to be levied by anti-dumping duties, the CE (Communitates European) mark system and the eco-label system. Such trade policy instruments have not been applied to Korean exports before this enlargement. Korean firms are requested to pay extra 5 per cent surcharge for the export of electronic products since July 2005 in accordance with the full process responsibility.

Trade, both within the enlarged Union and with external partners [15] will greatly benefit from this Eastern enlargement. The single set of administrative procedures

that currently applies to the existing member states will be expanded to encompass the enlarged Union. The Common External Tariff of EU, which applied to new member countries, is much lower than the tariff rates implemented in these countries. The share of pan-European market accounted for 17.6 per cent of total exports of Korea in 2004 which ranked the third position after China and the US whose share recorded 19.6 per cent and 18.2 per cent respectively. Korea's trade with the EU shows an increasing trend whereas that with the U.S. shows a decreasing trend due to the weakened dollars.

It may be necessary to analyze the evolving comparative advantage of new member nations to facilitate trade and investment towards the pan-European market. The Lafay's index of Table 5 estimated by the European Central Bank shows that Hungary has comparative advantage in data-processing machines and Slovakia has competitive edge in passenger car industry [16].

**Table 5:** Three Specialization Realms of New Member Nations [26]

Nations	SITC code	Specialization Items	LFY Index
Czech	781	Passenger Car	3.0
	784	Motorcar Ancillary	1.0
	665	Glass Product	1.0
Hungary	752	Data Processing Equipment	3.8
	713	Piston engine and parts	2.9
	781	Passenger Car	1.0
Poland	821	Furniture and Parts	3.1
	793	Shipbuilding and Structures	1.6
	842	Textile Materials and Man's Wear	1.3
Slovakia	781	Passenger Car	6.3
	674	General Steel Product	3.1
	334	Refined Petroleum Product	2.2

The EU ranked the third position in cumulative amount of incoming FDI to Korea since 1990. The United States and Japan ranked the first and second position in technology cooperation with Korea and the EU also ranked the third position. The FDI of Korea to the EU has shown a decreasing trend whereas that of EU to Korea has shown an increasing trend. If the EU intends to make use of the CEEC as outsourcing bases, the competitive edge of textiles and clothes of Korea will be dwindled unless Korean firms increase product quality to cater for the changing patterns of product differentiation. Put it another way, it may be required for Korean firms to augment new attributes in the Lancasterian sense as a means of increasing their exports to the pan European market.

### Foreign Direct Investment Aspect

Most Korean firms have used the FDI to Europe to pioneer market or to make use of cheap labor in the CEEC. Daewoo Group installed its affiliates in London and Berlin in 1974 for promoting trade. Samsung Group invested in Portugal in 1982 for TV production. Korea's FDI in EU is concentrated in a few nations such as the Germany,



France and the U.K. and most FDI have been aimed at marketing activities, instead of production or R&D activities. Daewoo Group built a motorcar plant in Poland in the early 1990s, but these affiliates have been liquidated when the Daewoo Group went bankrupted since the currency crisis of 1997. The second movement of FDI to CEEC since 2000 shifted from Poland to Hungary or Slovakia. About 40 Korean firms are carrying out business in Hungary in a wide range of manufacturing, logistics and finance. Samsung Group built a manufacturing center in Hungary and extended such activities to Slovakia. LG Group which built plants in Poland makes use of Hungary as marketing headquarters. The mobile phone company of Samsung locates in China, Brazil, Mexico and Spain which are equipped with capacities of producing about 10 million phones a year. But there are only plants producing electronics in CEEC. There is still no plant or R&D centers in CEEC. Most leading mobile phones such as Nokia, Ericsson and IBM have their plants or R&D centers in CEEC [17].

## **Korea Aspect**

The significance of enterprises is to discover the demands of the contemporary. So Korea should be complemented not by time consistent demands but by time inconsistent demands through consumption-related humanities. Most of the industry of Korea is not leading the innovation leader in the industry no.1 (First-to-Market Strategy) but has grown into a product of the way as a quick second growth strategy (Follow-the-Leader) along the Leader. It is difficult for Korea to overcome a full-scale renovation of the technology which it is coming up from the bottom of the low-cost Chinese products market. The innovation strategy for the current is an urgent point because it is beyond its command system in the hierarchy of organizational culture, which combines with unlimited participation to people within the organization and humanistic wealth of knowledge in Europe in order to make convergence growth like the products of E-car, Smartphone, IoT, etc.

Hyundai is not even recruiting of humanities majors or recruiting announcement except for those who would need to arrange staffs accordingly. Regardless science for humanities majors in universities, they should be taken both, at least as an ICT learning in common. Now global talent convergence for HR is required. Humanities majors have to be willing to learn computer language and literature with ICT immediately as understanding SW engineers (computer technology) as interpreters (national language). Humanity has to encounter technology in order to be commercializing something. So South Korea and Hungary will have to co-cultivate and co-raise them for the higher educated or equipped with talents for both technology and humanity.

If Korean firms do not fully make use of the Eastern enlargement as an opportunity of enhancing in-house technological capabilities [18] and marketing, they are doomed to fail to fortify their competitive edge in the pan-European marketing which may be featured by the keen competition on maintaining high quality and a wide product portfolio management. Most Korean firms used the FDI as a means of increasing their market share or procuring cheap labor forces or raw materials. They rarely used the FDI as a means of acquiring the tacit technology or marketing skills. It may be imperative for Korean firms to expand not only trade and investment but also joint R&D activities with the EU as an effective measure to diversity trade dependence on the U.S., Japan and China. An aggressive FDI for technology

acquisition and diffusion may be helpful in procuring the tacit technology for developing high-end products.

## Korea's Mobile Phone Marketing Strategy towards the Pan-European Market

### Global Mobile Phone Market

This section focuses on the corporate strategy of mobile phone sector and public policy which aims at formulating pan-European marketing strategy by carrying out an analysis at the firm specific level.

The IT industry has such an attribute of short life-cycle, product differentiation and very rapid pace of the Innovation and Consumption. It requires not only the economies of scale in the flavor of Marshall, but also the 'learning by doing' of Arrow as well as the 'linkage effect' based on the human resource development of the endogenous growth theory elaborated by Romer. The U.S. has maintained the front runner and the EU and Japan have been lagging behind in terms of in-house technological capabilities and innovation and consumed at the same time. The EU plans to expand its IT industry hubs from the Western and Northern Europe to the Eastern and cross its fingers for the possible upward movement of competitive edge in IT industry. Hungary is endowed with the highly-quality manpower and location hub in logistics. Table 6 shows the marketing share of world leading mobile phone firms.

**Table 6:** Market Shares of Leading Firms (mobile phone/ smartphone, %) [9]

	19 97	19 98	19 99	20 00	20 01	20 02	20 03	20 04	20 05	20 06	20 07	*2 00 8	*2 00 9	*2 01 0	*2 01 1	*2 01 2	*2 01 3	*2 01 4
<b>Nokia</b>	19	24	28	32	37	38	34 .7	30 .4	31 .8	34 .1	38 .8	43. 7	41. 1	34. 2	17. 9	5.8	3.1	na
<b>Motorol a</b>	22	20	19	15	15	16	14 .5	15 .3	17 .5	21 .3	14 .1	-	-	-	-	-	-	-
<b>Samsun g</b>	3	4	5	4	6	9	10 .5	12 .7	12 .3	11 .6	14 .3	3.4	19. 4	20. 2	19. 3	30. 3	31. 0	32. 3
<b>Siemens</b>	4	4	5	6	7	7	8. 4	7. 2	3. 5	-	-	-	-	-	-	-	-	-
<b>Sony( Ericss on)</b>	17	16	12	9 10	8	5	5. 1	6. 2	6. 1	7. 3	9. 2	1.7	0.8	3.4	4.2	3.6	3.8	na
<b>LG</b>	-	-	-	-	-	-	-	-	6. 6	6. 3	7. 2	0.1	0.3	1.9	4.0	3.8	4.8	4.9
<b>*ZTE</b>												-	-	0.1	2.2	3.9	3.9	na
<b>*Apple</b>												8.2	14. 4	15. 6	18. 9	19. 1	15. 6	11. 9
<b>*Huawe i</b>												-	0.0	0.1	3.3	4.0	4.8	6.9
<b>*Lenov o+Moto</b>												0.1	0.0	0.1	0.3	3.3	4.5	na
<b>Other</b>	35	32	31	33	27	25	26 .8	28 .2	22 .2	19 .4	16 .4	42. 8	24	24. 4	29. 9	26. 2	28. 5	44

Since 2008, within regional hubs of innovation that had begun to increase consumption of mobile phones, it has replaced the existing ordinary mobile phone with a smart phone like iPhone. Nokia has caused the chasm (Technology-Marketing disconnected). Nokia finally went off from the center of the investment. Nokia factory and investing the R&D centers in Hungary as regional hubs was suspended, then closed. Like Siemens in 2005, Nokia in 2012 was to be disappeared in the regional hubs of the world as well as the central hub of Europe.

## **Changes in the Pan-European Marketing Strategies**

In the early 1990s, Korea had contemplated the impact of 'Single Market' of 1992 on the Korean trade and investment with the EU. Such a concern was intensified by the possible emergence of 'Fortress Europe'. Flows of trade and investment with the EU have been expanded before the currency crisis of 1997, but it showed a downturn in the late 1990s. Korea had undergone through tough times in settling down trade disputes with the EU in electronics, shipbuilding and motorcar industry. Since the mid-1990s, there has been virtually no systematic approach to facilitate trade and FDI with EU. The sluggish progress with the EU may be stemmed from the heavy reliance of Korea's trade and investment with the U.S., China and Japan. But the pan-European market has become too large to be treated as a residual market in terms of trade, investment and technology cooperation.

It is undeniable that most Korean chief executive officers, policy makers and academicians admit that there is an ample opportunity for Korea to expand trade and FDI with Europe. But the Eastern enlargement of EU requires a different approach compared with the previous research on intra-industry which was the main focus of a single European market in 1992. It may be indispensable for Korean firms to trace out the changing patterns of demand as well as changing patterns of SWOT of competitors by taking into account the pan-European logistics of production and technology. Put it another way, it may be more sensible to analyze corporate strategy in terms of 'calibrated equilibrium' or strategic trade policy or the 'competitive intelligence' of strategic management. This section analyzes the market strategy of Samsung and LG to the pan-European market by taking into account the Eastern enlargement of EU, particularly four new member countries whose IT share to GDP exceeds 2.0 percent. The share of IT industry to GDP ranges from 2.0 percent in Poland to 3.5 percent in Hungary in 2003. This ratio for Slovenia and Slovakia are 2.1 per cent and 2.4 per cent respectively.

The incoming FDI to the CEE and customer choice and quality of service of Visegrad + Eastern Europeans may be improved in parallel with the widened market entry. Most leading firms in mobile phone industry want to keep the platform leadership. Intel, for instance, invests in the following areas to stay in frontiers: architectural innovations and consumed at the same time, tools for developers, and industry-wide standardization efforts [19]. Vodafone of the U.K. and Deutsche Telekom have procured a strong threshold market share in the CEECs.

## **Market Segmentation by Reflecting Consumer Tastes**

Despite having perceived the increased market size and the relative importance of the pan-European market, the lack of perceiving differentiated tastes of consumers

has worked as an impediment factor for both Korean firms and public organizations in capturing the EU market. Conventional market survey classifies consumers on the basis of national borders. But it may be more plausible to augment demographic, social psychological and behavior traits to the national category as a means of drawing strategic implications. It may be reasonable to sort out consumers on the following categories which reflect salient features: differentiated lifestyle, diversified evaluation method of brand equity, different patterns of purchasing products, different ditches of price sensitivity, attitude of European customers towards Korean products and consumers' awareness towards product differentiation.

It shows national differences in consumer preferences at national levels. The Central and Eastern European countries exhibit strong preferences on Euro and self-confidence compared with stylish and traditional attitudes. It is inferred from Homogeneous consumer needs, tastes and lifestyles in the EU that the homogeneous attributes between the Western Europe and CEEC is greater than those between the Western Europe and Korea. It may be, thus, sensible for Korean firms to have affiliates in the CEEC as a means of promoting the pan-European marketing. It is also noticeable that there is not a wide margin in competitive edge of new member nations in the CEEC compared with the old ones as shown in Competitive Edges at the Sector Specific Level of EU. This implies that the CEEC may be a suitable place to build plant and R&D facilities whose products may be loaded to the Western European markets or elsewhere in the global market if Korean firms successfully bridge or close the gap in pan-European marketing and R&D activities.

### **Importance of R&D Activity for the Pan-European Marketing**

The critically important corporate strategy for Korean firms to increase their market shares in the emerging market of the CEEC as well as Western European countries may be reformulated into how to capture the niche markets [20]. It may be noticeable that R&D may be indispensable for marketing and a further success in R&D is also influenced by the finance based on an appropriate method of valuation and the development stage of capital market. The salient feature of such a marketing approach comprises the critical role of tacit knowledge network in technology acquisition and diffusion as well as in marketing outlet. B2B, total quality management, joint R&D and joint marketing are important factors for Korean firms to cope with the intensified competition with world leading firms. It is required to examine the SWOT of R&D investment to the CEEC as a means of making a further analysis on sterilizing the emergence of chasm which is liable to emerge when the R&D investment is falling behind the changing patterns of consumer needs.

Another important reason for pursuing such a marketing strategy is that it may allow Korean firms to bridge the chasm between the initial market penetration and the mass marketing with a minimal frictional cost. The chasm marketing refers to the discrete of marketing caused by the uncovered sunk cost of R&D expenditures due to a wedge between marketing and R&D activities. It shows the chasm market in terms of technology life-cycle.

It indicates the bottleneck of discrete marketing activities that emerge when marketing revenue does not fully cover the R&D expenses of items whose product

life cycle is rather short. The chasm may work as an entry barrier for a further development of early majority market. The high-end products with extremely short-life cycles are liable to fill the slots of chasm. Chasm marketing aims at reducing and closing such a chasm by analyzing how to finance the R&D and capital expenditure for capturing the early majority market. This approach alleviates the possible extra burden of Korean firms in expanding their market share in the enlarged pan-European market. The chasm marketing refers to the discrete of marketing caused by the uncovered sunk cost of R&D expenditures due to a wedge between marketing and R&D activities.

It pointed out that Samsung Electronics faced with chasm marketing issues as compared to other competitors. The same point is, if Samsung group rely on economies of scale, the chasm marketing should not be a problem. But if they rely on the ability to design and product differentiation chasm marketing, there may be a problem. The company will also increase the likelihood of bankruptcy.

### **Corporate Strategy and Public Policy**

The weightless society stresses the important roles of tacit technology for the paradigm shift towards knowledge-based economy. It may be indispensable for Korean firms to carry out foreign direct investment not only for production facilities but also for the installation of R&D and marketing know-how centre in the CEECs. The competitive advantages in a global economy may increasingly stem from local things [21] knowledge, relationships, and motivation that distant counterparts cannot match. There arises, therefore, an imperative need to reflect such spatial factor which plays an important role in explaining the linkage effects in the diffusion process of tacit technology. In parallel with the corporate strategy to invest on production site, R&D centers and marketing, there is a need for the government to nurture those sectors which have relatively high linkage effects. The public policy [22] may be aimed at fostering the required manpower of the mobile phone industry, instead of providing social overhead capital such as highways or harbors. In other words, the externalities or spill over effects from human capital play more important roles in public policy compared with those from physical capital.

Marketing foothold in the EU is Hungary like a hub of market distribution within Visegrad+EEs, for example, South Korea conglomerate cases like Samsung, LG, Hyundai-Kia, Hankuk Tire have already entered into the European single market through the benefit such as low cost, incentives (direct cash subsidies), EU funds, so on. Representative entrepreneurs, Samsung had started from Hungary, and expanded own business in Slovakia, and built the consumer electronics factory in Poland. Although the cost level of central Europe is favorable considering the many variables of matters, such as higher distribution costs, taxes when compared to China. It is because public policies will actively encourage these things. If some entrepreneurs' sales established in there, they will be increasing the proportion of marketing and distribution out and, even added to such R&D investment, the width of the incentives and workforce are greater in Hungary.

## Conclusion and Implication

The paper has shown that it is the time for Korean firms to switch various types of FDI to the CEECs in terms of pan-European marketing. It also points out the potential risks of chasm by failing to cover the R&D expenditures due to the discrete patterns of consumption and rapid pace of product life cycle. By considering the future strategy of innovation and moving spoke-hubs of own market distribution, it demonstrates the importance of rapid diverse convergence to cover the new industrial markets by making use of FDI on joint innovative activities. Unless it has ever fallen the chasm in world market like Nokia, TNCs should keep on investing into hubs of local market like Hungary of Visegrad. Hyundai' E-car or hydrogen hybrid-car fields including of Samsung' smartphone or IoT are consumed in CEECs in order not to have been agile in bridging the chasm market by making use of FDI. For marketing foothold in the EU hub, entrepreneurs for accommodating the changing patterns of market with technology catch-up need a hub of market distribution within Visegrad + EEs.

The new products will fail in global marketing, regardless of the spokes investment that could create new consumption in emerging hubs such as Visegrad group and a simultaneous continuous products development. This is because the expansion of new collaborations has enabled the creation of hubs in the emerging regional small markets (Visegrad + Eastern European-Balkan countries) and the central large markets (Germany + CEE). The emerging hubs as the birth of a new gravity model are attracted to the surrounding commercial consumption because the low-cost or market trades are moving eastward. But TNCs may even be merged by mega-innovative companies in the pan-European marketing unless they successfully adapt the changing patterns of demand in according to new commercialization of competing firms. The public policy in a knowledge-based economy is required to shift from the role of restraining to fostering in terms of promoting linkage effect for avoiding the chasm and then the policy has to be continuously exploring new spoke-hubs for consumption.

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